

MEMORANDUM

TO: Members of The House Retiree Health Care Reforms  
Committee

FROM: John R. Axe, Axe & Ecklund, P.C.

DATE: November 29, 2007

RE: Amendment to Public Act 34 of 2001 to Permit Issuance  
of Retirees Health Care Bonds

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On March 13, 2007 House Bill 4451, a copy of which is attached hereto, was introduced in the Michigan House of Representatives. This legislation would permit a new type of bond issue. This legislation is in the captioned committee.

The purpose of the legislation is as follows:

In the last five years, a number of municipalities and states have issued bonds for the purpose of providing funds for pension obligations of one sort or another which such municipality or state must meet in the future.

Because these types of obligations were not common before the Revised Municipal Finance Act was adopted in 2001, there was no provision included in the act to authorize the issuance of such obligations.

At the present, if a municipality in Michigan wishes to issue such an obligation, the only way it may do so is to create a trust by contract between the municipality and the retirement system and then issue Trust Certificates, which are an obligation of the trust. These Trust Certificates are then sold like municipal bonds to raise the money. The obligation of the municipality to make the contract payments are valid obligations of the municipality and are used to repay the Trust Certificates.

For instance, in June of 2005, the City of Detroit issued such Trust Certificates to provide funds for its general and police and fire retirement systems.

In July of this year, the County of Oakland created a Trust which issued \$556,985,000 in Trust Certificates for the same purpose permitted by this legislation.

Because the issuance of Trust Certificates is cumbersome and because the contract payments are the security, such certificates do not sell nearly as well as a bond issue and the result is a higher rate of interest which raises the costs to the municipality. This was what the issuing Trusts experienced in the Detroit and Oakland situations.

This legislation will authorize exactly the same type of obligation as would result if Trust Certificates were used but will result in substantially lower interest costs to the municipality. Otherwise the obligation of the municipality will be identical. For instance, this legislation would not allow any levy of any tax which was not already authorized for the municipality.

Based on an analysis done in June when the Oakland Trust issued its certificates, an issuer which borrowed \$556,985,000 could expect to save more than \$19,500,000 in interest costs if the amendment included in House Bill 4451 is approved and signed into law.



**\$556,985,000**  
**COUNTY OF OAKLAND**  
**RETIREEES HEALTH CARE BONDS, SERIES 2007**

**ESTIMATED DEBT SERVICE SCHEDULE AS OF JUNE 28, 2007**

<b>Date</b>	<b>Principal</b>	<b>Coupon</b>	<b>Interest</b>	<b>Total Debt Service</b>	<b>Fiscal Year Total</b>
10/01/07			\$8,034,598.44	\$8,034,598.44	
04/01/08	\$20,765,000.00	5.625%	16,069,196.88	36,834,196.88	\$44,868,795.31
10/01/08			15,485,181.25	15,485,181.25	
04/01/09	16,610,000.00	5.625%	15,485,181.25	32,095,181.25	47,580,362.50
10/01/09			15,018,025.00	15,018,025.00	
04/01/10	17,590,000.00	5.625%	15,018,025.00	32,608,025.00	47,626,050.00
10/01/10			14,523,306.25	14,523,306.25	
04/01/11	18,320,000.00	5.625%	14,523,306.25	32,843,306.25	47,366,612.50
10/01/11			14,008,056.25	14,008,056.25	
04/01/12	19,545,000.00	5.625%	14,008,056.25	33,553,056.25	47,561,112.50
10/01/12			13,458,353.13	13,458,353.13	
04/01/13	20,520,000.00	5.625%	13,458,353.13	33,978,353.13	47,436,706.25
10/01/13			12,881,228.13	12,881,228.13	
04/01/14	21,500,000.00	5.625%	12,881,228.13	34,381,228.13	47,262,456.25
10/01/14			12,276,540.63	12,276,540.63	
04/01/15	22,720,000.00	5.625%	12,276,540.63	34,996,540.63	47,273,081.25
10/01/15			11,637,540.63	11,637,540.63	
04/01/16	23,940,000.00	5.625%	11,637,540.63	35,577,540.63	47,215,081.25
10/01/16			10,964,228.13	10,964,228.13	
04/01/17	25,405,000.00	5.625%	10,964,228.13	36,369,228.13	47,333,456.25
10/01/17			10,249,712.50	10,249,712.50	
04/01/18	26,875,000.00	5.625%	10,249,712.50	37,124,712.50	47,374,425.00
10/01/18			9,493,853.13	9,493,853.13	
04/01/19	28,340,000.00	5.875%	9,493,853.13	37,833,853.13	47,327,706.25
10/01/19			8,661,365.63	8,661,365.63	
04/01/20	29,805,000.00	5.875%	8,661,365.63	38,466,365.63	47,127,731.25
10/01/20			7,785,843.75	7,785,843.75	
04/01/21	31,760,000.00	5.875%	7,785,843.75	39,545,843.75	47,331,687.50
10/01/21			6,852,893.75	6,852,893.75	
04/01/22	33,465,000.00	5.875%	6,852,893.75	40,317,893.75	47,170,787.50
10/01/22			5,869,859.38	5,869,859.38	
04/01/23	35,420,000.00	5.875%	5,869,859.38	41,289,859.38	47,159,718.75
10/01/23			4,829,396.88	4,829,396.88	
04/01/24	37,620,000.00	5.875%	4,829,396.88	42,449,396.88	47,278,793.75
10/01/24			3,724,309.38	3,724,309.38	
04/01/25	39,820,000.00	5.875%	3,724,309.38	43,544,309.38	47,268,618.75
10/01/25			2,554,596.88	2,554,596.88	
04/01/26	42,260,000.00	5.875%	2,554,596.88	44,814,596.88	47,369,193.75
10/01/26			1,313,209.38	1,313,209.38	
04/01/27	44,705,000.00	5.875%	1,313,209.38	46,018,209.38	47,331,418.75
<u>\$556,985,000.00</u>			<u>\$387,278,795.31</u>	<u>\$944,263,795.31</u>	<u>\$944,263,795.31</u>

**Interest Start Date (Dated Date):** 07/01/07



**\$556,985,000**  
**COUNTY OF OAKLAND**  
**RETIREES HEALTH CARE CERTIFICATES OF PARTICIPATION, SERIES 2007**

**ESTIMATED DEBT SERVICE SCHEDULE AS OF MAY 2006**

<b>Date</b>	<b>Principal</b>	<b>Coupon</b>	<b>Interest</b>	<b>Total Debt Service</b>	<b>Fiscal Year Total</b>
10/01/07			\$8,233,998.44	\$8,233,998.44	
04/01/08	\$20,765,000.00	4.825%	16,467,996.88	37,232,996.88	\$45,466,995.31
10/01/08			15,967,041.25	15,967,041.25	
04/01/09	16,610,000.00	5.125%	15,967,041.25	32,577,041.25	48,544,082.50
10/01/09			15,541,410.00	15,541,410.00	
04/01/10	17,590,000.00	5.225%	15,541,410.00	33,131,410.00	48,672,820.00
10/01/10			15,081,871.25	15,081,871.25	
04/01/11	18,320,000.00	5.325%	15,081,871.25	33,401,871.25	48,483,742.50
10/01/11			14,594,101.25	14,594,101.25	
04/01/12	19,545,000.00	5.325%	14,594,101.25	34,139,101.25	48,733,202.50
10/01/12			14,073,715.63	14,073,715.63	
04/01/13	20,520,000.00	5.425%	14,073,715.63	34,593,715.63	48,667,431.25
10/01/13			13,517,110.63	13,517,110.63	
04/01/14	21,500,000.00	5.525%	13,517,110.63	35,017,110.63	48,534,221.25
10/01/14			12,923,173.13	12,923,173.13	
04/01/15	22,720,000.00	5.575%	12,923,173.13	35,643,173.13	48,566,346.25
10/01/15			12,289,853.13	12,289,853.13	
04/01/16	23,940,000.00	5.725%	12,289,853.13	36,229,853.13	48,519,706.25
10/01/16			11,604,570.63	11,604,570.63	
04/01/17	25,405,000.00	5.825%	11,604,570.63	37,009,570.63	48,614,141.25
10/01/17			10,864,650.00	10,864,650.00	
04/01/18	26,875,000.00	5.925%	10,864,650.00	37,739,650.00	48,604,300.00
10/01/18			10,068,478.13	10,068,478.13	
04/01/19	28,340,000.00	6.025%	10,068,478.13	38,408,478.13	48,476,956.25
10/01/19			9,214,735.63	9,214,735.63	
04/01/20	29,805,000.00	6.075%	9,214,735.63	39,019,735.63	48,234,471.25
10/01/20			8,309,408.75	8,309,408.75	
04/01/21	31,760,000.00	6.125%	8,309,408.75	40,069,408.75	48,378,817.50
10/01/21			7,336,758.75	7,336,758.75	
04/01/22	33,465,000.00	6.175%	7,336,758.75	40,801,758.75	48,138,517.50
10/01/22			6,303,526.88	6,303,526.88	
04/01/23	35,420,000.00	6.225%	6,303,526.88	41,723,526.88	48,027,053.75
10/01/23			5,201,079.38	5,201,079.38	
04/01/24	37,620,000.00	6.275%	5,201,079.38	42,821,079.38	48,022,158.75
10/01/24			4,020,751.88	4,020,751.88	
04/01/25	39,820,000.00	6.325%	4,020,751.88	43,840,751.88	47,861,503.75
10/01/25			2,761,444.38	2,761,444.38	
04/01/26	42,260,000.00	6.325%	2,761,444.38	45,021,444.38	47,782,888.75
10/01/26			1,424,971.88	1,424,971.88	
04/01/27	44,705,000.00	6.375%	1,424,971.88	46,129,971.88	47,554,943.75
<u>\$556,985,000.00</u>			<u>\$406,899,300.31</u>	<u>\$963,884,300.31</u>	<u>\$963,884,300.31</u>

**Interest Start Date (Dated Date):** 07/01/07